

CONTRACTORS AGREEMENT

LONG BEACH UNIT

WILMINGTON OIL FIELD

**Article 9**

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Article 9. Crude Oil

(a) General Provision

Subject to the provisions of Article 11 hereof, each Contractor shall have the exclusive right to take and shall be obligated to take the Oil Allocated to such Contractor. All Oil Allocated to each Contractor shall be accounted for and payment made to the City on the basis of its value as computed under this Article. Delivery of all Oil Allocated to each Contractor shall be taken by such Contractor or its nominee in the manner and in accordance with the applicable provisions of the Unit Agreement and Unit Operating Agreement.

(b) Valuation Applicable to all Contractors

The Value of Oil Allocated to each Contractor as to each delivery thereof shall be established in accordance with one of the following four (4) standards, whichever shall be highest:

1. The arithmetical average of the prices posted in the Field by Continuing Purchasers for oil of like gravity during the month the oil to be valued is run into the Contractor=s or nominee=s tanks and/or pipelines (weighted, in the event of a price change during such month, as to each Continuing Purchaser in accordance with the number of days each such price was posted during such month).

2. The arithmetical average of the prices posted in the Named Fields (or in such of them in which there are prices posted by one or more Continuing Purchasers) by Continuing Purchasers for oil of like gravity during the month the oil to be valued is run into the Contractor=s or nominee=s tanks and/or pipelines (weighted in the event of a price change during such month, as to each Continuing Purchaser and as to its posting in each field, in accordance with the number of days each such price was posted during such month).

3. The weighted average of the Prices Paid by Substantial Purchasers for Purchases of Oil in the Field for oil of like gravity during the calendar month in which the oil to be valued is run into the Contractor=s or nominee=s tanks and/or pipelines.

4. The weighted average of the Prices Paid by Substantial Purchasers for

Purchases of Oil in the Name Fields for oil of like gravity during the calendar month in which the oil to be valued is run into the Contractor=s or nominee=s tanks and/or pipelines.

The price for valuing each delivery of oil, as determined by any of the above methods, shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel.

If, for any reason, none of the aforesaid four standards set forth in the first paragraph of this Section 9(b) are ascertainable, on the basis of all available relevant and reliable information, as to any delivery, the Value of Oil Allocated to any Contractor by such delivery shall be the actual current market price of such oil at the point of delivery determined on the basis of all available relevant and reliable information.

In the event prices posted by any Continuing Purchaser in any field on any day do not include prices for all gravities of oil to be valued hereunder to the closest tenth of a degree of API gravity, the price deemed to be posted by such Continuing Purchaser on such day for oil of any gravity whose price is not actually posted in such field by such Continuing Purchaser shall be determined as follows:

1. If such Continuing Purchaser posts prices in such field for oil of both a higher and a lower API gravity than that of any oil to be valued, the price deemed to be posted in such field by such Continuing Purchaser for such oil to be valued shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel, by interpolating on a straight line between the nearest lower degree as to which a price is posted by such Continuing Purchaser and the nearest higher degree so posted; provided that no such interpolation shall be made if either the nearest higher or the lower degree of oil as to which a price is posted is more than five degrees (5°) API gravity higher or lower than that of the oil to be valued, in which event the price of the oil to be valued will be determined by extrapolation under subparagraph (2) hereof, if either the nearest lower degree of oil or the nearest higher degree of oil as to which a price is posted is within five degrees (5°) API gravity of that of the oil to be valued.

(2) If such Continuing Purchaser posts a price in such field for only a single gravity of oil, or if all oil as to which it posts a price is either of a higher or of a lower gravity than that of the oil to be valued, the price deemed to be posted in such field by such Continuing Purchaser for such oil to be valued shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel, by extrapolating from such a single price, or from the price of oil of the nearest gravity to that of the oil to be valued, on the basis of the then current Index of Crude Oil Prices (Schedule AC@ to Exhibit AD@ of the Unit Agreement), provided that no such price posted shall be extrapolated more than five degrees (5°) API gravity above or below the API gravity of the oil to be valued.

Any prices posted by a Continuing Purchaser in the Field or in any of the Named Fields shall be excluded from the computation of the arithmetical averages of prices posted in the Field or in the Named Fields provided for in this Section 9(b) during the first fifteen (15) days of such posting (or during the entire period thereof if less than fifteen (15) days) if it can be shown on the basis of reliable information by any party hereto or the State that such Continuing Purchaser has not, during such period, made Purchases of Oil in the oil field in question of at least fifteen thousand (15,000) barrels of oil, including a substantial quantity at the same or within five degrees (5°) API gravity of the average gravity of the Oil Allocated to the Contract Lands during such period, at a price determined on the basis of its posted prices or on the basis of an average of posted prices including its posted prices in such field; and thereafter such posted prices shall be excluded from the computation for any day if it can be shown on the basis of reliable information by any party hereto or the State that during the fifteen (15) day period immediately preceding the day for which such computation is made, such Continuing Purchaser has not made Purchases of Oil in the oil field in question of at least fifteen thousand (15,000) barrels of oil, including a substantial quantity at the same or within five degrees (5°) API gravity of the average gravity of the Oil Allocated to the Contractors during such period, at a price determined on the basis of prices posted by it in such field, or on the basis of an average of posted prices including its posted prices in such field.

In computing the weighted average of the Prices Paid for Purchases of Oil

in the Field or in the Named Fields for oil of like gravity to that which is being valued, the following procedure shall be followed: (1) There shall first be aggregated all known Purchases of Oil by Substantial Purchasers in the Field or in the Named Fields (as the case may be) of oil having an API gravity equal to or within five degrees (5°) higher or lower than that of the oil to be valued; (2) Then the price of each such Purchase of Oil shall be weighted by multiplying such price by the number of barrels of oil purchased at such price during the month; (3) Then each price, so weighted, relating to oil of an API gravity different from that of the oil to be valued will be modified by extrapolation to the API gravity of the oil to be valued, on the basis of the then current Crude Oil Price Index (Schedule AC@ to Exhibit AD@ to the Unit Agreement); (4) Then the total price, so weighted and modified, of all such oil shall be divided by the number of barrels purchased during the month by means of such Purchases of Oil.

(c) Valuation Applicable to Certain Contractors

If any Contractor or any of the Persons Having an Interest in any Contractor acquires oil in the Field from any other Person either by a Purchase of Oil or by an exchange of oil for other Oil or Gas or other products extracted or manufactured from Oil or Gas or for other Property or services, at a price or other consideration per barrel higher than the valuation for such oil, calculated in accordance with Section 9(b) hereof, the Value of Oil Allocated to such Contractor shall include, in addition to its value computed in accordance with Section 9(b) hereof, a further amount computed as follows:

Such further amount shall be calculated for each day such Person making such purchase or exchange received such purchased or exchanged oil into its tanks and/or pipelines by first valuing such Person=s share of the Oil Allocated to such Contractor on such day in accordance with the price or other consideration paid for oil of like gravity to such other Person in the Field and then subtracting the value of such Person=s share of such oil computed in accordance with Section 9(b) hereof.

The price or other consideration paid to such other Person in the Field shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel. In the event the oil so purchased or received by exchange by such Person making such purchase or exchange on any day does not include all gravities of oil to be valued under this Section 9(c) to the closest tenth of a degree API gravity, the

price or other consideration deemed to be paid by such Person making such purchase or exchange on any such day for oil of any gravity not actually purchased or received by exchange shall be determined by interpolation or extrapolation on the basis of the gravity or gravities of the oil purchased from or exchanged with such other Person in the Field and the price or prices or other consideration paid therefor, in accordance with the method set forth in the third full paragraph of Section 9(b) and the two subparagraphs thereof.

The foregoing provision of this Section 9(c) shall not apply to the Field Contractor during the term of any agreement of sale by the Field Contractor, or by another Person or Persons party to this agreement, to a successful bidder pursuant to Article 11 hereof. All oil sold by competitive bidding pursuant to Article 11 hereof shall be valued and accounted for by the Field Contractor in accordance with its valuation computed in accordance with Section 9(b) hereof, and any excess amount or bonus received by Field Contractor, or by an Person or Persons party to this agreement, from such successful bidder shall be accounted for and paid over to the City as provided in Section 5(d) hereof.

(d) Information

Each Contractor and each Person Comprising any Contractor, hereby agrees to furnish to the City or the State, upon request, the following:

1. A current and accurate (to the extent practicable) valuation schedule based upon information available to such Contractor or such Person, covering all gravities of oil available for delivery in the Field, computed to the nearest tenth of a degree API gravity and the nearest tenth of a cent in accordance with the provisions of Section 9(b) hereof, including a specification of all calculations upon which such schedule is based.
2. A current and accurate list of all purchases and sales of oil by such Contractor, and by all of the Persons Having an Interest in such Contractor, in each of the Named Fields, including a specification of quantities, delivery dates, prices (including any premiums and bonuses), gravities, and names of sellers and purchasers.

Each Contractor and each Person Comprising any Contractor shall permit



authorized representatives of the City and the State of California to examine relevant books, ledgers, accounts, correspondence, memoranda and other records in the possession of or under control of such Contractor and Persons Comprising any Contractor (and, to the extent it is within their power, those of Persons Having an Interest in any Contractor) for the purpose of obtaining and confirming information relevant to or necessary for the implementation of the valuation provisions contained in this Article 9 and in Article 10 hereof.

(e) Review and Adjustment

Each Contractor shall make payments currently to the City, as provided in this agreement, on the basis of the Value of the Oil Allocated to such Contractor determined on the basis of posted prices as set forth in subparagraph (1) or subparagraph (2) of the first full paragraph of Section 9(b) hereof, whichever shall be higher. At any time within nine (9) months after the end of each calendar year (or any fiscal year agreed upon between any Contractor and the City ) during the term of this agreement, the City shall review and, if necessary adjust, the Value of Oil Allocated to each Contractor during such year on the basis of all available relevant and reliable information, for the purpose of determining whether any Contractor is required to account for any further Value of Oil Allocated to such Contractor under the terms of subparagraph (3) or (4) of said first full paragraph of Section 9(b) hereof, or under the provisions of Section 9(c) hereof. Any Contractor or the State, may require the City to make a review and, if necessary an adjustment, on the basis of all available relevant and reliable information, at any time within nine (9) months after the end of any such calendar (or fiscal) year of the Value of Oil Allocated to Contractors during such year and the proper application of the provisions of this Article 9.

Each Contractor and the City shall pay or repay to the party entitled thereto any amount of amounts necessary to make the adjustments herein provided. After making any payment required by the City pursuant hereto to which any Contractor objects, or after the City=s refusal to make any adjustment which any Contractor requests, such Contractor may, after ninety (90) days= notice to the City, bring an action against the City before a judge or judges of a court of competent jurisdiction for an adjudication on the basis of all reliable information then available pertaining to the matter

at issue, for the recovery of all or any part of any amount paid pursuant to any adjustment hereunder, or for the recovery of any amount as to which the City has refused to make such an adjustment.

(f) Public Law 31

Pursuant to Public Law 31, 83rd Congress, Chapter 65, 1st Session, in time of war or when necessary for national defense, and the Congress or the President shall so prescribe, the United States shall have the right of first refusal to purchase, at the prevailing market price, all or any portion of the oil to be taken and accounted for under this agreement or to acquire and use any portion of the Contract Lands by proceeding in accordance with due process of law and paying just compensation therefor. If the United States exercises such right to purchase any portion of the Oil Allocated to any Contractor, then the price paid by the United States for such oil shall be used in valuing such portion of the Oil Allocated to such Contractor under this agreement in lieu of any other provision of this Article otherwise applicable.

(g) Cut Back

In the event any Contractor shall fail to take delivery of its Participant Allocation of oil attributable to its Working Interest in Tract No. 1 and if there shall be a decision to cut back all or part of such Contractor=s said Participant Allocation as provided in Section 5.14 of the Unit Agreement, such Contractor shall nevertheless continue to pay its Contractor=s Percentage of all Unit Expense and taxes attributable to Tract No. 1 and all additional costs chargeable to such Contractor under this agreement, and such Contractor=s Net Profits Account shall be credited with the oil so cut back as if such oil had actually been delivered to such Contractor; provided that nothing herein shall affect any rights at law or in equity which such Contractor may have as against the City by virtue of the net benefit to the City under this agreement occasioned by the future production of such cut back oil. Any amount to which such Contractor is entitled by virtue of such rights, if any, shall be charged to such Contractor=s Net Profits Account. So long as such Contractor shall continue to carry out the obligations specified in this Section 9(g) during the period of such cut back, and shall otherwise discharge its obligations under this agreement and under the Unitization Agreements, such Contractor shall not be in default by virtue of its failure to take delivery of oil during such period.